DETERMINANTS OF BANK PERFORMANCE ON ASIAN COMMERCIAL BANKS

ABSTRACT

This study examines the determinants of bank performance across five Asian countries; they are Hong Kong, Thailand, Indonesia, Malaysia and Philippines from 2004 to 2011. The empirical evidence indicates that an increase in equity to total assets is beneficial to sustain capital strength and higher level of bank profitability. Increased loans to total assets ratio leads to a decline in bank profit as a result of lower credit quality and lower rate of return. Non-performing loans to gross loans lead to lower bank profit because of higher probability credit defaults from lending activities. Also, higher total assets may result in lower bank profit if banks cannot exploit the economies of scale. In addition, inflation rate increases operating costs faster than revenue. Higher GDP growth help generate more profits to bank. Furthermore, Thai banks profitability management is higher than Philippine banks and they extract higher interest rate spread than Hong Kong banks. However, the findings investigate that Indonesia banks can gain more interest rate spread because of low competition when compared with Thai banks. Subsequently, the empirical results show that the effect of the 2008 global financial crisis reduced return on equity and return on assets, with slightly wider net interest margin.